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The Farm Viewpoint of the Crow's Nest Freight Agreement

by

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FREIGHT RATE INCREASES

	Cumulative % % increase over Increase March, 1948		Annual Cost
April 8, 1948	21.0	21.0	\$ 70,000,000
Oct. 11, 1949	8.0	30.7	30,000,000
Mar. 23, 1950 (16% in lieu of 8%)	7.4	40.4	28,000,000
June 16, 1950 (20% in lieu of 16%)	3.4	45.2	18,000,000
July 26, 1951	12.0	62.6	
Feb. 11, 1952 (17% in lieu of 12%)	4.5	69.9	74,000,000
			\$215,000,000

INTRODUCTION

The Canadian Pacific Railway is seeking to obtain higher freight rates on export grain and flour shipments from Manitoba, Saskatchewan and Alberta. The present rates are fixed by federal statute, under the terms of the Crow's Nest Pass agreement.

This pamphlet is published by the Alberta Wheat Pool to present the grain producers' side of the question. Much of the information herein was obtained from presentations by the three western Wheat Pools to the Royal Commission on Transportation 1949, and also from presentations made at the same time by the provincial governments of the Prairie Provinces. In addition information was obtained from the Winnipeg Free Press, which has conducted a continuous editorial campaign against any interference with the export grain rates as fixed by the Crow's Nest Pass agreement.

The Background

On September 16, 1897, the Canadian Pacific railway entered into an agreement with the government of Canada to construct a railway from Lethbridge, Alberta, through the Crow's Nest pass to Nelson, British Columbia. The government undertook to pay a cash subsidy amounting to \$3,404,702 upon condition that the company should make a reduction of 3c per 100 pounds in the then existing freight rates on export shipments of grain and flour from all points west of Fort William. The company further agreed to maintain such rates as a maximum in perpetuity and also to reduce rates from 10 per cent to 33 1/3 per cent on a specified list of commodities of vital importance to agriculture to be shipped from the east, the most important of which were: farm implements, furniture, roofing, paints, glass, all kinds of wire, binder twine, fresh fruits, etc.

While the rates only applied to the C.P.R., competition compelled other lines of railways, when built in the prairie provinces, to meet the rates set under the agreement. Such are generally known as the Crow's Nest pass agreement rates. They are embedded in federal legislation, and hence do not come under the board of transport commissioners for Canada. Such rates can only be changed by amendments to the federal legislation.

C.P.R. Wants Agreement Nullified

In recent years the Canadian Pacific railway has sought to be relieved from its obligations under the Crow's Nest pass agreement. The company put in a strong case to the Turgeon Royal Commission on Transportation, against the rates, and asked the commission to recommend that parliament repeal the section of the railway act guaranteeing them. The commission refused consideration, but the company has since maintained a publicity campaign calculated to influence public opinion in favor of its stand.

D. S. Thomson, of Winnipeg, vice-president of the C.P.R. prairie region, has made a number of speeches in support of the company's contention. He claims that 36 per cent of the total railway traffic comes under the Crow's Nest rates and yields only 17½ per cent of the total revenue; also that artificially low rail rates for grain in Western Canada have made it necessary to increase general freight rates more than would have otherwise been required. The provisions of the agreement had actually been superseded by an act of parliament in 1925, said Mr. Thomson, and by the board of transport commissioners orders made under that authority. In scope the rate level set 55 years ago bears little resemblance to the traffic originally covered, so greatly has it been extended, he said.

The Productive West

The three prairie provinces of Canada comprise an area of approximately 755,000 square miles, much of which is fertile farm land. Dr. R. K. Larmour, director of the prairie regional laboratory, Saskatoon, Saskatchewan, said: "The triangular prairie region between Winnipeg, Calgary and Edmonton is the richest concentration of land to be found anywhere. Land is the most fundamental natural resource. Land determines a nation's life or death, because it produces food."

Hon. R. B. Bennett, former prime minister of Canada, in 1935 said: "For over a quarter of a century the area between the Great Lakes and the mountains of Western Canada was producing millions of dollars of new wealth year after year in the very year in which the effort was made. This has had the most significant influence upon our economic life of any single factor in our development, because never have so few people, so far as the ordinary history of the world is concerned, produced so much new wealth in a given time as has been produced in the last 30 years between the Great Lakes and the mountains of this Dominion."

Low Freight Rate Imperative

The area referred to works under one oppressive handicap. It is located in the heart of a continent, the distance from Calgary to the Pacific Coast being 642 railway miles, and from Calgary to Fort William at the head of the Great Lakes 1,267 miles. Canada's population of only 14 million people is too small to provide a substantial market for prairie production. About 30 million acres of land in Manitoba, Saskatchewan and Alberta is cultivated each year for the export market.* Over 75 per cent of all wheat delivered into commercial channels must find market outlets overseas. For such reasons, low freight rates are a vital necessity to the maintenance of agriculture in Western Canada on any reasonable basis of prosperity. That is why farmer organizations, provincial governments and other western interests fight vigorously and continuously against increases in freight rates.

The Railways' Problem

The railways make a vitally important contribution to the growth and development of Western Canada. It was the construction of the Canadian Pacific line to the west coast which brought about the confederation of the Canadian provinces into one dominion, and opened Western Canada for settlement and development. In all fairness it should be recognized that the railways perform a service which no other method of transportation can provide. Their rates are fixed by the board of transport commissioners, but in recent years of progressive inflation, costs of labor and material have steadily mounted. The labor costs alone take 57 per cent of the railways' revenue. At the same time the farmers of the prairie provinces find themselves in a similar dilemma, namely, continually increasing costs of production pressing

*In an address delivered in Montreal on March 28, 1939, Hon. John Bracken, then premier of Manitoba, said:

"In the prairie provinces we have 17,000,000 acres of land devoted wholly to the production of wheat for export. . . . We have 30,000,000 acres now devoted entirely to the production of farm products for export."

against the price level received for their products. This affects the whole of the west, as farming is predominantly the main source of wealth production in this area, and consequently provides a livelihood for the greatest number of people. Farmers in the prairie provinces have to pay the freight on the products they ship, and also on the manufactured goods they import.

Additional Benefits to C.P.R.

To get back to the Crow's Nest pass agreement, it should be stated much more benefits were obtained by the C.P.R. than the federal subsidy. The province of British Columbia, anxious to obtain the Crow's Nest line, gave a grant to the company of 3,620,000 acres of land, including mineral rights. The company was also able to acquire the charter of the British Columbia Southern railway with all its subsidy rights, for a purely nominal sum. It also acquired for the sum of \$800,000, the Columbia and Western railway, including 33 miles of railway and the smelter at Trail, which subsequently developed into Consolidated Mining and Smelting Corporation, which has been a tremendous source of wealth to the C.P.R.*

The C.P.R. through the building of this line of railway excluded a threatened United States rail invasion and obtained a monopoly, which it still enjoys, of all rail transport in that portion of the province of Alberta lying south of Calgary.

For a considerable period the railway made no complaints against the bargain it had made with the Canadian government. In fact lower rates than called for in the contract were put into effect up until 1918. Costs of railway operation rose because of war conditions, and the agreement was suspended by government action from 1918 until 1922 and increases above the maximum were permitted. In 1922 the rates on grain and flour were again reduced to the original maximums set

★ This holding amounts to 9,012,500 shares of Smelters, worth at current prices about \$342,000,000. Income from this holding provides the C.P.R. with an annual revenue of about \$1.20 for each share of the railway company.

by the agreement. In 1924, when the Crow's Nest pass rates in their entirety were reinstated, the C.P.R. for the first time took the position that the agreement only applied to shipping points which were in existence in 1897. Such a stand had not even been suggested in the previous 27 years. The Supreme Court of Canada upheld the railway's stand, but the discrimination and confusion this created resulted in the parliament of Canada intervening in 1925. It re-established the original rates on grain and flour, extending same to all shipping points irrespective of whether or not they were in existence in 1897. But parliament did relieve the railway company of its obligations under the agreement with regard to all commodities shipped from Eastern Canada to the west. It is through this intervention of the government, changing the terms of the agreement, that the company bases its claim that the whole agreement is vitiated.

Non-Railway Revenue

J. J. Frawley, Q.C., who represents the province of Alberta in freight rate matters, has pointed out that the Canadian Pacific railway's income from its railway business was \$38,020,357 in 1950, while its income from non-rail business (operation of hotels, steamship lines, mining and smelting, etc.) was \$23,236,264.

Said Mr. Frawley:

"The people of Canada want to see the C.P.R. strong, efficient and healthy, but they do not want to go on paying higher freight rates when the company wants certain profits sealed off into separate compartments."

It is reported that the C.P.R. invested about \$17 million in developing the mining properties of Consolidated Mining and Smelting Corporation in the Crow's Nest area. This investment is now worth hundreds of millions of dollars, and provides the company with an annual income of around \$16 million.

If the Canadian government had never entered

into an agreement with the C.P.R. to build the Crow's Nest pass line, the company never would have owned its present holdings in Consolidated Mining and Smelting. It now argues that dividends obtainable therefrom, as well as income from other sources of non-railway income, should not be considered in arriving at freight rates.

Even if the C.P.R.'s argument in this respect is logical, in all reason and fairness the company should be willing to live up to its obligations respecting freight rates on grain made when it signed the contract with the government of Canada to build the Crow's Nest pass railway line.

The West Bears the Burden

Since 1948 railway and freight rates in Canada increased 69.9 per cent. This entails an additional cost of \$290 million a year. The railways have intimated a further increase will be applied for. The greatest burden of freight rate increases falls upon the people of the prairie provinces.

The Winnipeg Free Press, which has strongly championed the cause of the west in the matter of railway freight rates, recently said editorially:

"In shipping east the western producers must meet severe and constant competition in every line. The price the westerner receives is the eastern price less the cost of shipping. The western traffic consists largely of manufactured goods. Here the price is fixed at the factory and the freight rate added to it.

"It is thus clear that out of the C.P.R. total traffic of \$347,525,624 per year \$114,290,183, almost entirely in the east, is totally exempt from percentage increases. Central Canada is cushioned from the impact of these percentage increases by railways and waterways and international traffic. The full weight of the increases falls upon \$203,058,829 of traffic, most of which is either in Western Canada or chargeable to western consumers. Exactly the same conditions apply to the Canadian National railway."

Are Grain Rates Unprofitable?

Figures of the C.P.R. earnings for a 30 year period have been supplied to the Board of Transport Commissioners. These include the years from 1907 to 1925 and from 1936 to 1945. The earnings for the 10 intervening years between the two periods are not yet available.

In the 30 year period mentioned, net earnings of the C.P.R. in Western Canada, where the low rates on grain apply to 36 per cent. of the traffic, totalled \$753,334,134. In the same period the net earnings in Eastern Canada totalled \$361,705,798. It will thus be seen that even with low rates on grain prevailing in the west, the company earned \$2 in that area for every \$1 it earned in Eastern Canada.*

A breakdown of yearly earnings shows clearly that the big returns are obtained in the last four months of the year when harvesting is in progress and the flow of grain is at its peak. This statement is proven by the following table:

	Jan. to Aug. 8 months	Sept. to Dec. 4 months
1948 earnings	\$15,833,820	\$17,457,526
1949 earnings	12,449,867	17,161,835
1950 earnings	22,974,954	31,889,781

President Beatty's Opinion

Sir Edward Beatty, a former president of the C.P.R., in giving evidence before the senate railway committee in 1938, was asked about rates on grain and flour. He said:

"Sir William Van Horne made an agreement with the government for the Crow's Nest pass rates. A great many people criticized that because they said he only got \$3,000,000 odd in the way of subsidies for building that line, and in consideration of that he made this very drastic reduction on grain rates, and certain other commodities westbound. I have always thought Sir William

*N. R. Crump, vice-president of the C.P.R. commenting on this statement, said in a speech at Fort William on Feb. 13, 1952: "If these figures are going to be used in connection with freight rate increases which have taken place since World War 2 we have a right to use figures based on years in which the rate increases have been in effect. The figures for the four years 1948 to 1951 inclusive show net earnings in Eastern Canada 38 per cent greater than net earnings in Western Canada."

His figures:

Eastern Canada	\$60,291,219
Western Canada	43,593,105

Van Horne was 100 per cent right. He knew the geography of this country, he knew where our competition would come from, and he knew our only salvation in the markets overseas was low freight rates in Canada in view of our distances. I think he went into that with his eyes

open and undoubtedly made a good bargain. I think he made a good one both for the country and the railways. And that must have been the influence that actuated him in that matter."

S. W. Fairweather, then director of economics for the Canadian National railways, also gave evidence before the same committee. He said the Crow's Nest rates had always been profitable. He also mentioned that the railway profit on grain alone only began to open up the picture. When a big crop was harvested the wealth produced by that crop permeated the whole economic fabric of the country, and the railways benefited substantially through increased buying and shipping of goods.

A Contract Is a Contract

Said the Free Press editorially in October, 1951:

"In 1897 the Canadian Pacific railway voluntarily, indeed, eagerly, entered into an agreement with the federal government. The federal government carried out its part of the agreement to the letter. Down the years the C.P.R. has benefited enormously because of this agreement. In 1925 the C.P.R. got rid of the obligations — westbound rates. Today it is true, as stated by the governments of the three prairie provinces to the Turgeon commission, that: 'During the past 30 years the C.P.R. has succeeded in divesting itself of all but one of the original binding provisions of the contract'."

Mr. Thomson intimated that the low rates prevailing on the movement of grain have made it necessary to increase general freight rates more than would otherwise have been required. This point was brought up by the Turgeon Royal Commission on Transportation in the sittings it held across Canada. In no instance did representations from other parts of Canada make any protest against the Crow's Nest rates. Another point: Mr. Thomson gave no promise that there would be any reduction in freight rates on other goods or commodities, even if the Crow's Nest pass agreement was thrown into the discard.

MIGHT COST MILLIONS MORE

The Canadian Pacific railway has never, to our knowledge, intimated what might be ex-

pected in the way of an increased freight rate on export grain if the Crow's Nest pass rates were abandoned. It is possible, however, that an effort would be made to have the export rates increased to the same level as the domestic rates on hauling grain.

At the present time the export rate on grain from Calgary to Vancouver is 20c a hundred pounds, or 12c a bushel for wheat. The domestic rate is 36½c a hundred pounds, or 21.9c a bushel. The difference is 9.9c a bushel, or \$173.25 on a 1,750 bushel car. The bulk of Alberta's export wheat is shipped via Vancouver. On the wheat shipped eastward to Fort William-Port Arthur, the rise in cost would be proportionately the same. If the Crow's Nest rates go the additional cost to the farmers might run \$30,000,000 to \$40,000,000 a year.

No one can foretell the trend in wheat prices. A good world crop might well drive the price down to the dollar level once again. At such a price level, a railway freight charge of 22c a bushel to water transportation would be an onerous burden for the farmer to bear.

Bonuses Granted C.P.R.

It seems timely to outline what the Canadian Pacific railway received from the Canadian government by way of bonuses for the construction of its transcontinental line. The sum of \$25 million was granted in cash, and also 25 million acres of land.

Much of the land has been sold and considerable revenue obtained therefrom. At first no attention was paid to the oil and mineral rights, which were included in the transfer from the government. Latterly, in the sale of land to settlers, the C.P.R. retained such rights, which now have become extremely valuable. At the present time the company has oil rights on 11,384,256 acres in the prairie provinces. The breakdown by provinces is as follows: Alberta 8,265,136, Saskatchewan 2,847,799, and Manitoba 271,321. These oil properties are carried on the

books of the C.P.R. at the nominal sum of \$1. Investors consider them exceedingly valuable and the price of C.P.R. stock on the market has risen accordingly.*

The granting of financial concessions by the government of Canada was necessary to have the railway built. Canadian confederation was brought about in 1867, but parliament feared that British Columbia might drift into the political orbit of the United States, with the prairie region following after. The building of a transcontinental railway was a dangerous venture for an underpopulated Canada to undertake. Extraordinary attractions had to be granted to the Canadian Pacific railway before the company would undertake the construction of a railroad through the vast undeveloped country.

Had the Crow's Nest pass line not been built the southern regions of Western Canada would unquestionably have been tapped by Jim Hill's Northern Pacific railway in the United States, in which event the C.P.R. would have had keen competition and difficulty in surviving. J. W. Dafoe, editor of the Winnipeg Free Press, in his biography of Hon. Clifford Sifton, said the Crow's Nest line saved the C.P.R. from bankruptcy.

High Rates Might Be Disastrous

The four main exporting nations in the world are: the United States, Canada, Argentina and Australia. In the United States the bulk of the wheat production is consumed by the domestic market. In Argentina the average rail haul for wheat going into the export market is 200 miles. The wheat growing regions of Australia are located along the coastal areas close to tide-water. Only in Canada is there a large volume of wheat for export produced in the heart of a continent. As mentioned previously, it is 642 miles from Calgary to Vancouver, and 1,267 miles

*The oil and mineral rights handed over to the C.P.R. with the original land grants did not require any investment of shareholders' money. Such grants were made to provide capital for railway expansion.

from Calgary to Fort-William. High freight rates on grain in this country would put Canada in a disadvantageous position in the world's wheat business; which in normal times is keenly competitive. If the Crow's Nest pass agreement is cast aside, the result might well be disastrous for the prairie provinces of Western Canada.

Speaking in Winnipeg in 1924, Rt. Hon. W. L. Mackenzie King, for many years prime minister of Canada, in referring to the Crow's Nest pass agreement, said:

"The east is protected by waterways, the Pacific by the Panama canal, and the west by parliament."

The farm people of Western Canada are grimly determined that the Crow's Nest pass agreement be preserved on the statute books of Canada. They do not believe that any changes made in the original agreement in any respect alter the intention of the contract. Any effort made in the Canadian parliament to interfere with the present rates under the agreement, in order that the railways might obtain more revenue therefrom, will be met with a storm of protest from the west. It would only add to the feeling, already too prevalent in the prairie provinces, that this part of Canada is carrying too great a burden on behalf of the entire nation.

CROW'S NEST FREIGHT RATES

Summary

1. The Crow's Nest pass agreement rates on export grain should not be altered, because they were established in a solemn and binding agreement between the government of Canada and the Canadian Pacific railway, in which the latter agreed to maintain such rates for all time.

2. In return for the perpetual establishment of such rates on export grain the C.P.R. received a substantial cash payment towards building the Crow's Nest pass line from Lethbridge, Alberta, to Nelson, British Columbia. It was placed in a position to obtain valuable land and mineral

grants and other assets either without cost, or at nominal prices.

3. The grants enabled the C.P.R. to enter the mineral-rich territory of southern British Columbia, and also to obtain a rail monopoly in this area and in southern Alberta, preventing the intrusion by railroads from the United States.

4. The C.P.R. maintains that the railway should stand on its own feet, and profits from subsidiary enterprises should be kept separate because such were gained through investment of stockholders' funds. This argument does not apply to the oil and mineral rights handed over to the C.P.R. with the original land grants, which did not require any investment of shareholders' money.

5. Grain producers in the prairie provinces rely on low freight rates to enable them to compete with the farmers in other exporting countries who produce their grain relatively near tidewater. Any increases in rates for export grain will put prairie producers in a most disadvantageous position in world markets.

6. In the years since the agreement was signed for which figures are available, about two-thirds of the C.P.R.'s net revenues have come from, or are chargeable to, the west.

7. Higher freight rates on export grain are not necessary, since statistics show that the railway's revenues in the west are highest when the grain movement is at its peak in the autumn.

8. Freight rate increases spiral living costs and farm operating costs in the prairie provinces. Merchants add freight charges to the cost of goods, and their margin of profit is calculated on the total. The total of freight rate increases since 1948 is calculated to provide an additional \$215 million annual revenue for Canadian railways.

9. Freight rates, once established, seldom come down, and if they do the reduction is tem-

porary. On the other hand, prices of farm products are never stable. If freight rates went up and down with farm prices, farmers would have little to complain about.

10. The C.P.R. maintains that the Crow's Nest agreement was broken in 1918. It should be understood that this was done as a temporary measure to provide additional revenue for the railways during the inflationary period following World War I. Prior to 1918 the C.P.R. had made no protest against the terms of the agreement.

11. While the Crow's Nest rates have been extended to cover grain shipments to the Pacific (not included in the agreement), the C.P.R. has been relieved of low rates on the shipment of a large variety of goods from Eastern Canada.

12. The C.P.R.'s contention that the rates agreed upon should apply only to lines built when the contract was signed is a puerile argument. This contention was never brought up until 1924. It is plain that at the time the agreement was signed, the company intended to build additional lines. Surely it did not plan on establishing a two-rate structure for grain hauling!

Stripped of all the wordy superficialities, this dispute boils down to this: the Canadian Pacific railway entered into an agreement to transport export grain from the prairie provinces under specified ceiling rates. The company now wants to rid itself of this obligation. Farmers in the prairie provinces of Canada object to any tampering with current export grain rates.

This issue is of vital importance to the farmers of Manitoba, Saskatchewan and Alberta. Their main protection lies in the fact that it will take an act of parliament to change the Crow's Nest rates on export grain. If the federal government agrees to hand over to the board of transport commissioners the authority to discard the Crow's Nest rates, anything can happen.

